

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 7288

BILL NUMBER: HB 1118

NOTE PREPARED: Jan 14, 2005

BILL AMENDED: Jan 13, 2005

SUBJECT: Health Insurance Premium Deduction.

FIRST AUTHOR: Rep. Espich

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) The bill provides a deduction in computing Adjusted Gross Income for amounts an individual spends during the taxable year on certain health insurance premiums for coverage of the individual, the individual's spouse, or a dependent. The bill excludes expenditures for a long term care policy, Medicare, a Medicare supplement policy, a group health insurance policy offered through an employer, or a policy provided by the Indiana comprehensive health insurance association. The bill also makes a technical correction.

Effective Date: January 1, 2005 (retroactive).

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this deduction. These expenses presumably could be covered under DOR's existing budget and resources.

Explanation of State Revenues: (Revised) *Summary:* The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities for individual taxpayers with premium expenses for certain health insurance coverage. The revenue loss due to this bill could potentially total \$4.2 M beginning in FY 2006. Growth in the deduction could potentially range from 8% to 12% annually thereafter based on recent annual trends in medical expenses and health insurance premiums.

Background: The bill establishes a deduction from Indiana AGI for premiums paid by an individual taxpayer for health insurance coverage (as defined under the federal Internal Revenue Code) for the taxpayer, the

taxpayer's spouse, and the taxpayer's dependents. The deduction applies to premium expenses paid by an individual for private health coverage, regardless of whether it is obtained on an individual or group basis. The deduction does not apply to premiums paid by an individual for federal Medicare coverage, long-term care insurance policies, Medicare supplement insurance policies, health insurance through the Indiana Comprehensive Health Insurance Association, or group health insurance offered through an employer.

Since the deduction is effective beginning in tax year 2005, the fiscal impact would begin in FY 2006. Eighty six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund.

The revenue loss from this deduction is estimated to total about \$4.2 M beginning in FY 2006. The fiscal impact could potentially increase 8% to 12% annually based on recent annual trends in medical expenses and health insurance premiums. The growth rate would depend on changes in health insurance coverage rates. The deductible premium total is estimated based on *Census 2000* population counts for Indiana and statistical results from various health insurance surveys.

The deductible premium total for private non-group coverage is estimated based on survey research suggesting that roughly 5.3% of the population under the age of 65 is covered by such insurance policies. Due to surveying anomalies, however, it is likely that this estimate also includes the very small share of the population that obtains private group insurance coverage through what are called "association policies." The U. S. Census Bureau, *Current Population Survey* (which is the basis for these insurance coverage estimates) more than likely categorizes individuals in the private non-group coverage category even though their response to the survey is that they purchase association policies. The survey research also estimates that current annual premiums for private coverage averages about \$1,530 for single coverage and \$2,890 for family coverage. In addition, this is adjusted to account for individuals who purchase private coverage but already utilize the deduction from federal gross income for self-employed health insurance premiums. In 2001, 73,149 federal filers residing in Indiana claimed \$170.3 M in health premiums under this deduction. These premiums are excluded from the estimate.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) The proposed deduction could potentially decrease taxable income. As a result, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) could potentially experience a decrease in revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: OFMA Income Tax databases, 1998-2001. David Rousseau, Kaiser Family Foundation, (202) 347-5270. *Census 2000, Age Distribution of Population, Indiana*, Summary File 1, <http://www.census.gov/>. Kaiser Family Foundation, *The Economic Downturn and Changes in Health Insurance Coverage 2000-2003*, September 2004, <http://www.kff.org/>. Kaiser Family Foundation, *Update on Individual Health Insurance*, August 2004.

Fiscal Analyst: Jim Landers, 317-232-9869.